

Minutes of the meeting held on Monday July 7, 2014

Present: Francis Murphy – Chair, James Monagle, Michael Gardner, Nadia Chamblin-Foster, Louis DePasquale, Ellen Philbin, Attorney James Quirk, Rafik Ghazarian and Chris Burns.

The meeting was called to order at 5:01 PM. The meeting was digitally recorded.

Agenda Item #1 – Minutes

Motion by Chamblin-Foster, seconded by Monagle to accept the regular minutes of the meeting held on June 9, 2014. Voted unanimously.

Motion by Chamblin-Foster, seconded by Gardner to accept the executive session minutes of the meeting held on June 9, 2014. Voted unanimously.

Motion by Gardner, seconded by Monagle to accept the minutes of the investment review meeting held on June 11, 2014. Voted unanimously.

Agenda #2 - Warrant

Motion by Chamblin-Foster, seconded by Monagle to accept payment of warrant #12 in the amount of \$5,220,711.77 and Warrant #13 in the amount of \$88,465.47. Voted unanimously.

Agenda Item #3 – Superannuations

Motion by Monagle, seconded by Chamblin-Foster to accept the Superannuation retirement applications submitted by Debra Alessandro, Clinical Leader/RN, Cambridge Health Alliance with thirty-five years, 11 months, Patricia A. Berry, Executive Secretary, School Department with twelve years eight months, Jane M. Butler, Registered Nurse, Cambridge Health Alliance with thirty-two years, Cathleen A. Camuso, Registered Nurse, Cambridge Health Alliance with fifteen years one month, Ellen Lyons-Connors, Clinical Nurse Specialist, Cambridge Health Alliance with twenty-seven years nine months, Carol A. Correia, Sr. Clerk, Cambridge School Department with twenty-nine years one month, Susan E. Cusson, Nurse Practitioner, Cambridge Health Alliance with twenty-four years six months, Janis Daniels, Teacher/Director, Human Services Department with thirty-two years three months, Janet M. Deldon, Registered Nurse, Cambridge Health Alliance with thirty years nine months, Donna M. DiTucci, Clerk, Cambridge School Department with twenty-three years three months, Joan M. Dwyer, Messenger, Cambridge Health Alliance with thirty-eight years, Goldie A. Eder, Social Work Supervisor, Cambridge Health Alliance with twenty-three years nine months, Patricia A. Fitzgerald, Registered Nurse, Cambridge Health Alliance with twenty-four years nine months, Janet M. Gedziun, Registered Nurse, Cambridge Health Alliance with thirty-five years three months, Marie F. Grimm, Clerk Specialist-Accounts Payable, Cambridge School Department with forty-four years four months, Carol A. Gunter, Registered Nurse, Cambridge Health Alliance with thirty-two years six months, Bonnie M. Johnston, Public Health Nurse, Cambridge Health Alliance with twenty-one years ten months, Paula Jones, Accounting Manager, Cambridge Public Works with twenty-seven years seven months, Elizabeth L. Kaloustian, Registered Nurse, Cambridge Health Alliance with thirty-nine years ten months, Kathleen Byrne Kelleher, Registered Nurse, Cambridge Health Alliance with thirty-eight years ten months, Denise Lunn, Registered Nurse, Cambridge Health Alliance with twenty nine years six months, Margaret B. Moroney, Registered Nurse Case Manager, Cambridge Health Alliance with twenty years eleven months, Edward A. Moschella, Registered Nurse, Cambridge Health Alliance with thirty years seven months, Jeanne M. Murphy, Sr. Clerk, Cambridge School Department with twenty-nine years eleven months, Pierre Marcel Pharaon, Hospital Aide, Cambridge Health Alliance with nineteen years eight months, Alan Schultz, Registered Nurse, Cambridge Health Alliance with twenty-eight years one month, Daniel F. Souza, Street Cleaner, Department of Public Works, with twelve years, Denise M. Talarico, Sr. Clerk, Cambridge School Department with forty-two

years eight months, Frances M. Toomey, Staff Nurse, Cambridge Health Alliance with fourteen years one month and Donna Kelly-Williams, Registered Nurse, Cambridge Health Alliance with forty years. Voted unanimously.

Agenda Item #4 – Redeposits / Make up / Liability

The Board reviewed make-up worksheets for four members.

Motion by Gardner, seconded by Monagle to allow the make-up of contributions requested by Marie Olene Girault six months, Barbara M. Lester two years eleven months (pro-rated), Judith Murphy two months (pro-rated) and Shuo Wang one year six months (pro-rated). Voted unanimously.

Agenda Item #5 – Refund Applications

The Board reviewed a list of refund applications submitted in June.

Motion by Gardner, seconded by Monagle to accept ten refund applications received in June 2014. Voted unanimously.

The Chairman requested to adjourn the open meeting and go into executive session for the purpose of discussing disability retirement applications. The Chairman stated that the meeting would reconvene in open session at the conclusion of the executive session.

On a roll call, the vote was as follows:

Michael Gardner:	YES
Nadia Chamblin-Foster:	YES
James Monagle:	YES
Francis Murphy:	YES

Agenda Item #6 - Accidental Disability Application – David Walles

The Board reviewed the Member’s Application, Treating Physician’s Statement and Employer’s Statement filed in connection with David Walles’ Accidental Disability Application.

Motion by Gardner, seconded by Monagle to accept the Accidental Disability application submitted by David Walles, a Fire Captain and to request that PERAC convene a medical panel. Voted unanimously.

Agenda Item #7 - Accidental Disability Benefit – Kurt McLaughlin

The Board reviewed the certificate and narrative reports of the medical panel, the Member’s Application, Treating Physician’s Statement and Employer’s Statement filed in connection with Kurt Mclaughlin’s Accidental Disability Application.

Motion by Gardner, seconded by Chamblin-Foster to accept the findings of the medical panel and grant Accidental Disability benefits to Kurt McLaughlin, a Firefighter. Voted unanimously.

Agenda Item #8 - Survivor Benefit – Martha Esquivel

The Board reviewed Thomas Coffey’s death certificate and the affidavit filed by his surviving spouse, Martha Esquivel.

Motion by Monagle, seconded by Chamblin-Foster to grant survivor benefits pursuant to Sec. 12 (2) (d) for the surviving spouse of Thomas Coffey, Technical Network Director at Cambridge Health Alliance, and to request that Attorney Quirk complete findings of fact in the matter. Voted unanimously.

Agenda Item #9 – Draft Actuarial Valuation Report

Kathleen Riley from Segal Consulting presented the preliminary results of the January 1, 2014 actuarial valuation. She stated that over the last two years, the system saw a decrease of 5.6% in the number of active participants, primarily from the Hospital. Total payroll was flat, although the average payroll for an active member increased by 6% over two years. This constituted an actuarial gain, as the system had assumed 4% annual salary increases. There were no unusual changes in the retiree population. Reviewing the system's asset value, Riley stated that the last five years have seen very significant gains. All losses from 2008 have now been fully recognized, but due to asset smoothing, not all of the recent gains have been recognized. The actuarial value of assets is approximately 91% of the market value of assets.

Riley stated that the present valuation reflects benefit changes for employees hired after April 2, 2012, as well as an increase in the Section 101 allowance to \$9,000 annually. The report shows the impact of lowering the investment return assumption to 7.875% or 7.75%. Riley stated that Segal would recommend lowering the rate, stating that while 8% is a reasonable assumption, that it is at the high end of the reasonable range. The system also realized a small gain from higher-than-expected mortality. Riley stated that she was comfortable retaining the current mortality table, although she might recommend a switch to a generational table in 2016. The report also made changes to the assumed rate of disability retirements and the administrative expense assumption.

Riley reviewed the proposed funding schedules, showing changes to the return assumption. Both proposed schedules allow the City to make the same payments as anticipated in the 2012 valuation, but have different dates for full funding. The City's annual appropriation, rate of increase and extra payments were all held steady from the 2012 valuation. Lowering the rate to 7.875% allows the system to eliminate the unfunded liability in 2026. Lowering the rate to 7.75% will pay off the unfunded liability in 2027. The 2012 valuation had forecasted that the liability would not be paid off until 2029. DePasquale requested that Segal prepare a schedule showing the effect of maintaining the 8% return assumption. Riley noted that there was a significant cushion built in to the schedule due to unrealized gains. She stated that fully realizing all the gains from the past five years would likely allow the system to be funded four years earlier than anticipated.

Riley stated that the current funding schedule includes a wage growth assumption of 4.75% in each year going forward. Gardner stated that the City anticipates a 2% wage COLA in 2015, 2.4% in 2016 and 2% in 2017. Riley stated that the actuarial gains from overestimating salary growth were fairly small, approximately \$8 million. She also stated that the system may wish to change the salary assumption at the same time that it adopts a generational mortality table, as these changes will partially offset each other. She also stated that if the system opts to change the assumption that she felt it would be more prudent to only change the next two years, as she felt that 4.75% wage growth was still a more reasonable long-term assumption.

DePasquale stated that he favored the adoption of the 7.875% rate, noting that it allows the system to both lower the return rate, and still cut three years off the repayment schedule.

Monagle moved to lower the investment return assumption to 7.875%. Chamblin-Foster seconded the motion. Gardner stated that he would favor lowering the assumption rate to 7.75%, noting that this rate was favored by PERAC's actuary, James Lamenzo. The motion carried on a 3-1 vote. Gardner voted in the negative.

Agenda Item #10– PRIM Update

Michael Bailey and Michael McGirr represented PRIM. A written overview of the Private Equity program was presented to the Board. The private equity investments team consists of four people at PRIM. Hamilton Lane has served as the private equity consultant since 2007. The private equity segment now has \$6.7 billion under management, comprising 11.5% of the total PRIT portfolio. The portfolio has generated very strong returns, returning 24.1% in 2013

and 17.9% annually over the last ten years, outperforming the Russell 3000 by approximately 1000 basis points. Bailey noted that the fund has slightly underperformed the public markets over the last five years, due to the significant equity rally over that period. Bailey reviewed the types of investments the fund makes. He described one fund which trolls for undervalued divisions of large corporations, which are then purchased and separated from the corporation. Approximately 80% of the fund is invested in buyout funds, with 20% to venture capital. Bailey reviewed the investment process, noting that systems must commit to investment in the following year's fund by December of the prior year. The commitment binds the fund to invest for only the following year, for any commitments made by PRIM in that calendar year. The underlying managers then call capital according to their own needs, typically over several years following the commitment. Boards pay a share of the administrative cost of managing the portfolio, in addition to the fees charged by underlying managers. Manager fees have averaged about 1.65% of assets under management. The managers also take an incentive fee of 20% of returns over 8%. Bailey noted that fund has attempted to negotiate fees, but that the top-performing funds are in such high demand that the firms are reluctant to offer discounts. Capital calls are made in proportion to each system's investment, and the fund attempts to bunch calls, so that there is no more than one capital call each month. Bailey stated that he was unsure about the accounting procedures concerning uncalled capital, and how shares of the fund were allocated. He offered to report back to the Board with additional information. Bailey stated that his office exercises no direct control over the underlying managers. The main method by which the Board can demand strong performance is by the ability to decline investment in subsequent offerings. Chamblin-Foster requested information on PRIM's efforts to promote diversity. She noted that it appears that there is only one woman in a senior role in the organization. Bailey stated that Michael Trotsky takes the diversity of the organization very seriously, although he could not speak to the specific steps that he had taken in terms of hiring or recruitment. Bailey also addressed specific restrictions on investment types. He stated that PRIM does not place restrictions on underlying managers, but that he believes that firms tend to avoid investments that public pension funds would find questionable, such as gambling. Bailey stated that he plans to make \$1.4 billion in new commitments in 2014, and to increase that number over the next two years.

Ghazarian stated that Donna Rosequist has reviewed PRIT and prepared a memo, presented at the May meeting, outlining her findings, and concluding that it would be a viable choice for private equity investing.

Ghazarian stated that a change in the return assumption to 7.75% or 7.875% would not be so significant as to require Segal to reconsider their asset allocation proposal. It would only mean that the Board would have a slightly higher chance of achieving the target return, once a model is selected.

Gardner moved to invest at least \$30 million in the PRIM 2015 private equity fund, with the final amount to be determined after further consultation with the investment consultant. Monagle seconded the motion and it was voted unanimously.

Agenda Item # 11 – PERAC Memo

The Board reviewed PERAC Memos numbered from 20-24.

Chamblin-Foster requested that the investment subcommittee review the system's investments in mining companies to determine if any firms in the portfolio have a poor record of treatment of workers.

Agenda Item #12 – Old Business

The Board reviewed a draft of a contract for the Executive Director.

Gardner stated that he was concerned by the salary increases described in the contract. He stated that City employee receive step increases when they are first hired into a position. After

reaching the top step, they receive only cost of living adjustments. He stated that it appears that the proposed contract creates new steps for the Executive Director. He stated that he would favor giving the Executive Director the same cost of living adjustments approved by the City. He also stated that the contract describes 2.5% cost of living adjustments in each of the next three years, although it is likely that the City's COLAs will be slightly lower.

The Chairman stated that he felt that the additional compensation was necessary in order to be sure that the system would be able to stay competitive and retain the Director as an employee. Chamblin-Foster suggested that the Board may wish to include an amended list of duties in the contract, and that the Board may wish to spell out a method for annual performance reviews. Monagle stated that he was also more comfortable with a fixed salary, rather than including step increases or annual adjustments based on performance. He stated that the Board may wish to perform some type of comparable worth analysis to determine if the Director's salary is in a reasonable range.

The Chairman appointed a committee consisting of Michael Gardner and James Monagle to review the Director's contract and report back to the Board with proposed amendments.

Agenda Item #13 - New Business

Not needed.

Agenda Item #14 - Executive Session

Agenda Item # 6 – adopted

Agenda Item # 7 – adopted

Agenda Item # 8 – adopted

Agenda Item #15 - Chairman's Report

None offered.

Agenda Item #16 - Executive Director's Report

Not needed.

The following documents were also reviewed by the Board:

- Notice of Retiree Death
- Correspondence from Elizabeth Cadigan to CRAB.
- Cambridge Retirement Board vs. PERAC and Elizabeth Cadigan.
- Cambridge Trust Company – Cambridge Bancorp President and CEO Joseph Roller Announces Mid-2015 Retirement Plans.
- PERAC Pension News.
- Asent Venture Partners (Quick Update) re: Portfolio and Fundraising.
- April Financials - Cash Disbursements, Cash Receipts, General Ledger, Summary of Accounts Trial Balance, Adjustments, Wire Transfers.
- IR+M Income Research +Management re: Portfolio Investment Report.
- Labaton Sucharow – Update.
- Pyramis Global Advisors- Monthly Investment Review.